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POSTAL RATE COMMISSION  
OFFICE OF THE SECRETARY

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268-0001

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

DIRECT TESTIMONY  
OF  
VIRGINIA J. MAYES  
ON BEHALF OF  
UNITED STATES POSTAL SERVICE



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1 AUTOBIOGRAPHICAL SKETCH  
2

3 My name is Virginia J. Mayes and I am an Economist in Pricing and  
4 Product Design at the United States Postal Service. I joined the Rate  
5 Development Division of the Office of Rates at the Postal Service in 1987. My  
6 work with the Postal Service has encompassed a variety of rate issues including,  
7 but not limited to, preferred rate mail categories and revenue forgone  
8 appropriations, caller service, parcel and expedited mail services, and treatment  
9 of undeliverable mail. I testified on rate design for Parcel Post in Docket Nos.  
10 R97-1 and MC97-2, Parcel Reclassification Reform. I designed rates for both  
11 domestic and international Express Mail in 1990, and testified on behalf of the  
12 Postal Service on domestic Express Mail rate design in Docket No. R90-1. I was  
13 a rebuttal witness on behalf of the Postal Service in Docket No. MC93-1, the  
14 Bulk Small Parcel Service case. At the request of the Internal Revenue Service,  
15 I provided testimony on revenue forgone and rate development for preferred rate  
16 mail categories, to be used in the case of *United Cancer Council v.*  
17 *Commissioner*, Docket No. 2008-91 X.

18 Prior to joining the Postal Service, I was employed with the economic  
19 consulting firm of Robert R. Nathan Associates. I had also worked as a  
20 statistician at the Bureau of the Census and as an economic analyst with the  
21 International Trade Commission. I received a Bachelor's Degree in economics  
22 and psychology from Washington University in St. Louis, Missouri. I completed a  
23 Master's Degree in economics at Brown University and continued graduate  
24 course work in economics at Brown.



## **I. PURPOSE OF TESTIMONY**

The purpose of this testimony is to present the Postal Service's proposed rate levels. Following the precedent used by both the Postal Rate Commission and the Postal Service, the proposed rate levels are described in terms of cost coverages (revenue divided by cost), and the proposed rate and fee increases are presented in the form of percentage changes. For each subclass, the narrative and accompanying tables will demonstrate how the Postal Service's proposed rate levels conform to the ratemaking criteria of the Postal Reorganization Act.

My testimony concludes with five Exhibits. Exhibits USPS-32A and USPS-32B show the test year finances of the Postal Service on a subclass-by-subclass basis before and after the proposed rate changes, respectively. Exhibit USPS-32C shows the revenues associated with the interim year, Fiscal Year 2000. Exhibit USPS-32D shows the proposed rate changes on a percentage increase or decrease basis. Exhibit USPS-32E provides a summary of test year after rates revenues and incremental costs.

## **II. GUIDE TO TESTIMONY AND SUPPORTING DOCUMENTATION**

This testimony is structured as follows. In Section III, the ratemaking criteria set forth in section 3622(b) of the Postal Reorganization Act are discussed in general. In Section III, I also discuss the treatment of preferred rate subclasses, and touch briefly on the relationship of rate levels to the types of costs presented. Section III ends with an explanation of the relevance of

1 Ramsey pricing models to the rate levels proposed in the current case. In  
2 Section IV, I discuss the pricing criteria as they were considered during the  
3 development of the rate levels proposed for the individual subclasses in the  
4 current case.

5 An electronic version of my testimony as well as all spreadsheets  
6 associated with my testimony are provided as Library Reference I-174.

### 8 **III. GENERAL DISCUSSION**

#### 10 **A. Ratemaking Criteria**

11 Section 3622(b) of the Postal Reorganization Act lists nine specific criteria  
12 to be considered in determining postal rate and fee levels. Those criteria are  
13 listed below and are followed by a discussion of how they were used in  
14 developing the Postal Service's proposed rate levels. The criteria are:

- 15 1. the establishment and maintenance of a fair and equitable schedule;
- 16 2. the value of the mail service actually provided each class or type of  
17 mail service to both the sender and the recipient, including but not  
18 limited to the collection, mode of transportation, and priority of  
19 delivery;
- 20 3. the requirement that each class of mail or type of mail service bear  
21 the direct and indirect postal costs attributed to that class or type plus  
22 that portion of all other costs of the Postal Service reasonably  
23 assignable to such class or type;
- 24 4. the effect of rate increases upon the general public, business mail  
25 users, and enterprises in the private sector of the economy engaged  
26 in the delivery of mail matter other than letters;
- 27 5. the available alternative means of sending and receiving letters and  
28 other mail matter at reasonable costs;
- 29
- 30
- 31
- 32



6. the degree of preparation of mail for delivery into the postal system performed by the mailer and its effect upon reducing costs to the Postal Service;
7. simplicity of structure for the entire schedule and simple, identifiable relationships between the rates or fees charged the various classes of mail for postal services;
8. the educational, cultural, scientific and informational value to the recipient of mail matter; and
9. such other factors as the Commission deems appropriate.

For ease of reference, these nine pricing criteria are often referred to by their statutory subsection numbers or by an abbreviation. The following table lists the pricing criteria by number and abbreviated form:

**Table 1. Pricing Criteria**

<u>Criterion Number</u>	<u>Abbreviated Form</u>
1	Fairness and Equity
2	Value of Service
3	Cost
4	Effect of Rate Increases
5	Available Alternatives
6	Degree of Preparation
7	Simplicity
8	ECSI
9	Other Factors

## **B. Discussion of Criteria**

### **1. Fairness and Equity**

The first pricing criterion specified in section 3622(b) of the Postal Reorganization Act is that the established schedule be fair and equitable. The Postal Service's proposals in this case have fairness and equity as their most

1 fundamental objectives. Fairness and equity form the framework within which  
2 the additional eight criteria are considered, providing a basis upon which to  
3 properly balance the sometimes conflicting factors indicated by these other  
4 criteria and serving as a check against undue influence by any one of the other  
5 criteria.

6 Because they may embody different meanings to customers, competitors  
7 and other interested parties, fairness and equity are perhaps the most subjective  
8 of the criteria. It is the responsibility of the Postal Service to balance the needs  
9 and concerns of all parties in accordance with the policies reflected in the Postal  
10 Reorganization Act.

## 11 **2. Value of Service**

12 Subsection 3622(b)(2) instructs that the value of the mail service actually  
13 provided to both the sender and the recipient be considered when establishing  
14 rate levels. The subsection specifically mentions the following operational  
15 aspects of mail service: collection, mode of transportation, and priority of  
16 delivery. These operational features provide for a general comparison of the  
17 relative levels of service among mail classes and between postal and non-postal  
18 alternatives. Other aspects of the service often considered include such factors  
19 as the level of privacy afforded by the mail class, the reliability and image  
20 associated with the mail class, the presence of features such as free forwarding,  
21 and the availability of such ancillary services as insurance or delivery  
22 confirmation. Such illustrative considerations affect postal customers'  
23 perceptions of the value of service they receive from the Postal Service when

1 they use different classes of mail and contribute to what is sometimes referred to  
2 as the intrinsic value of a class of mail.

3 Another way to look at value of service is by considering the degree to  
4 which usage of the service declines in response to price increases, indicative of  
5 what has been referred to as the economic value of service. The own-price  
6 elasticity of demand is measured as the percentage decline in usage (mail  
7 volume) that results from a one-percent increase in price. The lower (in absolute  
8 value) the own-price elasticity, the higher the value of service.

9 If a small increase in price results in a large volume decline (i.e., demand  
10 for the product is highly elastic), it can be inferred that the product has relatively  
11 low value due to the ease with which its customers are willing to substitute  
12 another product or forgo the use of the product altogether. A small response to  
13 a price change indicates that customers value the product highly and do not  
14 pursue substitutes as readily. The presence of a monopoly or the lack of  
15 reasonable alternatives will reduce the measured price elasticity. Therefore,  
16 such conditions should be considered when using the own-price elasticity to  
17 evaluate value of service.

18 The price elasticities mentioned in my discussions of individual subclasses  
19 are the long-run elasticities provided by Dr. Tolley (USPS-T-6) and Dr. Musgrave  
20 (USPS-T-8). For convenience, they are collected in Table 2 below.

**Table 2. Long-run Own-price Demand Elasticities**

First-Class Letters	
Single-piece	-0.262
Workshared	-0.251
First-Class Cards	
Stamped	-0.761
Private	-0.860
Priority Mail	-0.819
Express Mail	-1.565
Regular Periodicals	-0.154
Standard A Regular	-0.570
Standard A ECR	-0.808
Parcel Post	-1.230
Bound Printed Matter	-0.392
Special Standard	-0.296

Source: Priority Mail and Express Mail, USPS-T-8; all others, USPS-T-6.

An additional consideration is the availability of alternative services which have features valued by customers, but which are not available in the comparable postal services. For example, one postal service may be of higher value than another postal service in terms of delivery standards or access to collection or air transportation, but may lack the reliability or service features offered by another provider of a similar service.

### 3. Cost

This criterion has been considered the most objective of the nine pricing criteria, specifying that each class of mail bear the direct and indirect postal costs attributed to that class in addition to bearing some reasonable portion of the remaining costs of the postal system. As in Docket No. R97-1, the Postal

1 Service is again presenting information regarding the estimated incremental  
2 costs for each class and subclass of mail. As witness Bradley (USPS-T-22)  
3 explains in his testimony, incremental cost represents an accurate measure of  
4 the total cost caused by a product. Witness Bradley's and Kay's (USPS-T-23)  
5 testimony builds upon the earlier work by postal witnesses Panzar and Takis<sup>1</sup>  
6 and provides improved incremental costs. This set of costs is used to test  
7 whether the Postal Service's proposed rate levels adequately provide for  
8 revenue that will cover the incremental costs and thus, preclude cross-subsidy.<sup>2</sup>

9 The improved approach to measurement of volume-variable costs  
10 introduced by Postal Service witnesses Bradley (USPS-T-14) and Degen (USPS-  
11 T-12) in Docket No. R97-1 has been further refined for development of costs for  
12 this case.<sup>3</sup> The use of the refined costing approach in support of the Postal  
13 Service's Docket No. R2000-1 request affects the measured volume-variable  
14 costs of different mail classes to differing degrees, necessitating that the rate

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<sup>1</sup> Docket No. R97-1, USPS-T-11 and USPS-T-41, respectively.

<sup>2</sup> It should be noted that in Docket No. R97-1, the Postal Rate Commission's recommended rates for at least two subclasses provided inadequate revenue for those subclasses – Classroom Periodicals and Library Rate – to cover their attributable costs, as estimated by the Commission. In both instances, the Commission noted that the estimated costs for these preferred rate subclasses were "questionable" and would have led to unacceptably high rate increases. Rather than permit "rate anomalies," the Commission recommended that Classroom mailers be eligible for the rates paid by Nonprofit mailers and that Library mailers use the rates recommended for Special Standard Mail. These rates failed to provide after-rates revenue adequate for Library or Classroom mailers to cover their costs, as estimated by the Commission. Thus, while criterion 3 appears to be the most objective and least refutable of the nine pricing criteria, the Commission and the Postal Service recognize that there are very limited circumstances under which the other eight criteria or public policy may prevent the simple application of even this criterion.

1 levels proposed by the Postal Service recognize these changes in relative cost  
2 levels. As in Docket No. R97-1, the Postal Service has not mechanistically  
3 applied coverage or markup indices based on previous cost information. This is  
4 in particular deference to the dictate of criterion 4 that the effect of rate increases  
5 on mailers be considered, as well as to the requirement that the proposed rate  
6 levels balance the full set of pricing criteria.

#### 7 **4. Effect of Rate Increases**

8 This criterion provides for consideration of the effect of rate increases on  
9 both mailers and private-sector competitors of the Postal Service.

10 For mailers, comparison of the percentage rate increase for their class of  
11 mail relative to the overall rate of inflation in the economy, relative to the rate  
12 increases for other classes of mail, and relative to the overall system-average  
13 increase are useful indicators.

14 In developing its proposals in this case, the Postal Service has also  
15 considered the effect of its proposed rate increases on competitors, in order to  
16 ensure that no particular set of proposed rates or fees was designed with the  
17 specific goal of harming a competitor or group of competitors. It also is the  
18 Postal Service's objective to avoid unfair price competition. The incremental cost  
19 test is used by the Postal Service to ensure that rates for competitive products  
20 adequately cover costs so that these products or services are not being cross-  
21 subsidized by other postal services or products.

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(...continued)

<sup>3</sup> See the testimony of Postal Service witnesses Bozzo (USPS-T-15), Degen (USPS-T-16), and Van-Ty-Smith (USPS-T-17) in this case.

## **5. Available Alternatives**

This criterion requires the consideration of the availability, at reasonable cost, of alternate means of sending and receiving mail matter. For some categories of mail matter or service, the alternatives may be direct substitutes for postal services such as private-sector providers of expedited or package delivery services or delivery of advertising matter by alternate delivery systems. For other categories of messages or materials delivered through the mail, the alternatives may include other media, such as newspapers, radio, and television for the delivery of advertising messages, and the various electronic alternatives for First-Class Mail and some applications of Periodicals and Standard Mail (A).

## **6. Degree of Preparation**

Criterion 6 addresses the degree to which the mailer has prepared the mail before entering it into the postal system and the effect of this preparation on postal costs. As a result of the introduction of a significant number of worksharing discounts in previous rate cases, this criterion plays an immediate and direct role at the level of rate design within each subclass as discounts have been incorporated to reflect the varying means by which mailers prepare mail to bypass postal operations and reduce postal costs. Not only have rate elements been introduced to reflect the various levels of mail preparation, but in recent rate and classification cases, the Postal Service has proposed and the Commission has recommended rate designs that generally reflected expanded "passthroughs" of the worksharing cost differences where practicable.

1       The more highly-prepared the mail, the lower the postal cost attributed to  
2 that category of mail. The lower the costs attributed to that category of mail, the  
3 lower the cost base to which the rate level is applied. If the same cost coverage  
4 is assigned to two categories of mail differing only in the degree to which the  
5 mailer has prepared the mail, the more highly-prepared mail would have a  
6 reduced unit contribution. Thus, as the degree of preparation increases over  
7 time, all else equal, the coverage required to obtain the same contribution also  
8 increases. This has implications for the systemwide cost coverage, as well,  
9 given that institutional costs must, nevertheless, be recovered from postage and  
10 fees charged for postal services. Worksharing removes attributable costs but  
11 leaves institutional costs unchanged. Thus, as the overall level of worksharing  
12 increases, the percentage of total cost that is attributable can be expected to  
13 shrink and the required system-average cost coverage will increase, all else  
14 equal.

## 15           **7. Simplicity**

16       The seventh criterion points to the desirability both of simplicity in the rate  
17 schedule as a whole and of simple, identifiable relationships between different  
18 rates and fees. The implications of this criterion must be balanced with the  
19 dictates of criterion 1, that the rate and fee design be fair and equitable, and with  
20 the sixth criterion, which urges consideration of the degree of mailer preparation.

21       Over time, efforts to reflect the various degrees of mail preparation have  
22 increased the complexity of rate schedules for bulk-entered mail. However,  
23 technically sophisticated mailers commonly use computers and software in the



1 preparation and rating of bulk-entered mail. These mailers have been willing to  
2 accept a greater degree of complexity in rate schedules in order to pay rates that  
3 more directly reflect the worksharing they have performed. For mail classes  
4 used primarily by the general public, however, simple rate schedules and  
5 understandable relationships may be more important than the ability to reflect  
6 complex cost structures in rate designs.

7 The seventh criterion, as was true of the sixth criterion, is most immediately  
8 reflected in the rate design, providing the logic that understandable and rational  
9 relationships exist between various postal rates. The Postal Service and the  
10 Commission have adjusted rate schedules in the past to ensure that, for  
11 example, the rate for a piece of Express Mail of a particular weight and origin-  
12 destination pair was higher than the Priority Mail rate for a similar piece and the  
13 Priority Mail rate was, in turn, higher than the Parcel Post rate for the same  
14 piece. In general, classes in which rates vary by weight or by distance exhibit  
15 increases in rates as distance or weight increases, a pattern that customers  
16 without knowledge of the underlying cost structure would view as reasonable.

## 17 **8. ECSI**

18 The final specified criterion directs that the educational, cultural, scientific,  
19 and informational value to the recipient be considered when determining rate  
20 levels for each type of mail. In the past, the Commission has applied this factor  
21 in setting rate levels for First-Class Mail Letters, Regular Periodicals, Special  
22 Standard Mail and, to some degree, Bound Printed Matter.

## 9. Other Factors

In addition to the eight criteria specified in the Act, the final criterion provides for the consideration of any other factors not specified that may be deemed appropriate by the Commission in setting rate levels.

### C. Preferred Rates

Rate levels for the preferred rate subclasses identified by Congress are currently governed by section 3626 of the Postal Reorganization Act, as amended by the 1993 Revenue Forgone Reform Act (RFRA). The RFRA dictates that the markup for each preferred rate subclass be tied to the markup for the most closely corresponding commercial subclass. Over a six-year phasing process, the final year of which was FY 1999, each preferred rate markup was to rise from one-twelfth the corresponding commercial markup to one-half the commercial markup. As the phasing period for the markups has been completed, the rates that the Postal Service proposes for Commission recommendation should be the "full" or Step 6 rates, with markups equal to one-half the commercial markups.

During the preparation of this case, the Postal Service discovered that, in some instances, application of the RFRA resulted in rates and rate relationships which, while conforming to the specifications of the RFRA, appeared to contravene the intentions of Congress in establishing the preferred subclasses. As discussed below, the Postal Service is proposing that these circumstances be addressed in this proceeding in a manner consistent with legislative amendments to the RFRA, which the Postal Service expects will be enacted.

1                   **1.    Nonprofit Enhanced Carrier Route Standard Mail (A)**

2           The rate increases experienced by Nonprofit and Nonprofit Enhanced  
3   Carrier Route Standard Mail (A) as a result of Docket No. R97-1 were  
4   considerably different from those applied to their commercial counterparts.<sup>4</sup> The  
5   larger increase for Nonprofit Standard Mail (A) was of some concern to both the  
6   Postal Service and the Commission, not to mention Nonprofit mailers. In the  
7   preparation of the current case, it became clear that the application of the RFRA  
8   requirement to Nonprofit ECR would result in a rate increase in excess of 30  
9   percent.

10          The Postal Service anticipates the enactment of legislative changes to the  
11   RFRA which will help mitigate the difference in rate changes between the  
12   commercial and preferred subclasses. Specifically, the anticipated amendment  
13   to the RFRA would direct that the markup applied to the Nonprofit Standard Mail  
14   (A) subclass could be set at less than one-half the commercial markup if  
15   necessary to keep the Nonprofit percentage rate increase within 10 percentage  
16   points of the rate increase experienced by the commercial counterpart. Such a  
17   change to the RFRA is not expected to limit the amount by which the Nonprofit  
18   rate increase can be below the commercial increase, only the amount by which it  
19   could exceed the commercial rate increase.

20  
21  

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<sup>4</sup> Nonprofit increased 14.8 percent and Nonprofit ECR decreased 7.6 percent. Their commercial counterparts increased 2.6 percent and 2.3 percent, respectively.

## 2. Periodicals

The Postal Service also anticipates legislative change that would combine two of the preferred subclasses (Nonprofit and Classroom) with the Regular subclass for ratemaking purposes, with one set of rates. In accordance with this change, the preferred nature of the Nonprofit and Classroom subclasses would be recognized with a bottom-line discount of 5 percent on total postage, excluding the postage of advertising pounds.<sup>5</sup> The rate levels proposed here anticipate such a legislative change. As a whole, the proposed new subclass (combined Regular, Nonprofit and Classroom) will cover its costs and provide contribution deemed reasonable for Periodicals, based on the pricing criteria. This combination, and resultant two subclasses instead of four, is expected to simplify, consolidate and provide stability to Periodicals volume and cost estimates. For ratemaking purposes, data for the Regular, Nonprofit and Classroom subclasses would be combined for the new "Outside County" subclass.

Within County would still remain an independent subclass and the current RFRA provisions would be used to propose the Within County rate level. The markup calculated for Outside County, prior to providing the discount to

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<sup>5</sup> Advertising pounds are excluded in order to be consistent with the provisions of the RFRA which provide for the same advertising rates for Regular and preferred periodicals.

1 Classroom and Nonprofit, is used for purposes of setting the markup for Within  
2 County.<sup>6</sup>

### 3 **3. Library Rate**

4 In Docket No. R97-1, the unit costs of Library Mail were significantly higher  
5 than those of Special Standard Mail, making it impossible to simultaneously  
6 propose that Library Mail bear the markup necessitated by the RFRA and that  
7 Library rates remain below those of Special Standard Mail. Recognizing that the  
8 statutorily mandated increase would lead Library mailers to switch to Special  
9 Standard (B), the Commission initially recommended that Library mailers be  
10 permitted to enter their mail at the rates for Special Standard Mail. The  
11 Governors of the Postal Service, concerned that this would lead to the  
12 disappearance of the Library Mail subclass, asked the Commission to reconsider  
13 its recommendation. The Commission responded by recommending a separate  
14 rate schedule for Library Mail, with rates identical to those on the Special  
15 Standard (B) Mail schedule.

16 In this docket, due to the relative size of Library Mail and Special Standard  
17 Mail unit costs, if the Library Rate markup were set at one-half that of Special  
18 Standard, as required by the RFRA, the resulting rates for Library Mail would  
19 have been higher than those of Special Standard. It is anticipated that legislative  
20 change to the RFRA will permit the Postal Service to ensure that Library Mail  
21 rates are one cent lower than those of Special Standard Mail in every rate cell.

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<sup>6</sup> Otherwise, the Within County rate level would benefit from the preference provided not only as a result of the RFRA dictate but also from the rate preference shown to the Nonprofit and Classroom mailers.

1 The Postal Service anticipates that such legislation will codify the principles for  
2 developing Library Mail rates followed in support of the Docket No. R2000-1  
3 request, in circumstances when preferred rates cannot be achieved using the  
4 cost coverage formula described in the current RFRA. Accordingly, Postal  
5 Service witness Kiefer (USPS-T-37) proposes rate schedules that maintain a  
6 rate difference between Special and Library rates. These rate schedules  
7 guarantee the continuity of the Library subclass and maintain the special  
8 treatment implied when Congress identified it as a preferred subclass.

9 **D. Attributable Cost, Incremental Cost and Volume-Variable Cost**

10 It has been the practice of the Commission to assess rate levels by  
11 comparing revenue to attributable cost. The Commission defines attributable  
12 cost as the sum of volume-variable cost and specific-fixed cost. The resulting  
13 cost coverages (ratios of revenue to attributable cost) for each subclass have  
14 been used to evaluate the application of the nine criteria of section 3622(b). The  
15 cost coverages have been used to test both the requirement of criterion three  
16 (that revenues equal or exceed attributable costs, thus preventing any cross-  
17 subsidy between subclasses), as well as the appropriateness of the application  
18 of the remaining criteria in determining how the burden of meeting the total  
19 revenue requirement is distributed among the subclasses.

20 In Docket No. R97-1, Postal Service witness Dr. Panzar (USPS-T-11)  
21 testified that these two purposes would be better served if two distinct cost  
22 measures were used. Dr. Panzar testified that the appropriate test for cross-  
23 subsidy is whether revenue from each subclass is at least equal to the

1 incremental cost for that subclass; whereas, the ratio of revenue to volume-  
2 variable cost is appropriate for assessing the burden of meeting the revenue  
3 requirement.

4 My evaluation of the rate levels for individual subclasses employs both of  
5 these cost measures, as did the testimony of Dr. O'Hara in Docket No. R97-1  
6 (USPS-T-30). In Docket No. R2000-1, for purposes of testing the adequacy of  
7 the Postal Service's proposed rates with regard to criterion 3, Postal Service  
8 witnesses Bradley (USPS-T-22) and Kay (USPS-T-23) provide improved  
9 incremental cost data for all subclasses. If the revenue from a subclass equals  
10 or exceeds its incremental cost, then there is no cross-subsidy; any excess of  
11 revenue over incremental cost means that the Postal Service's provision of that  
12 subclass benefits other subclasses.

13 On behalf of the Postal Service, I present the ratio of revenue to volume-  
14 variable cost for purposes of rate development. This form of the ratio highlights  
15 the cost consequences of an individual mailer's decision about how much to mail  
16 at given rates. The mailer only sends an additional piece of mail if the value of  
17 the mail service is at least equal to the price (or unit revenue). Once the  
18 mailpiece enters the postal system, the piece imposes one additional unit of  
19 volume-variable cost. Any excess of revenue over the volume-variable cost  
20 makes a contribution to other costs, whether those costs represent what have  
21 been known as "specific fixed costs" for that subclass or the "institutional costs"  
22 of operating the postal system. The additional mailpiece has no effect on the  
23 specific fixed costs for that subclass in that there is not relationship between the

1 volume of that subclass and the specific fixed costs. As noted above, the  
2 incremental cost test provides the assurance that the revenues from that  
3 subclass are adequately covering the costs of that subclass, including the  
4 specific fixed costs.

5 In Docket No. R97-1, Postal Service witness O'Hara provided examples  
6 demonstrating how application of the cost coverage to attributable or incremental  
7 costs could lead to unfairness and inefficiency relative to applying the cost  
8 coverage to volume-variable costs for rate development purposes. (R97-1,  
9 USPS-T-30, pages 14-16) For two pieces of mail in different subclasses with  
10 identical volume-variable cost and identical evaluation on the pricing criteria, the  
11 additional cost imposed on the postal system when the pieces are entered is  
12 identical for both pieces. If one of those subclasses has specific fixed costs in  
13 addition to its volume-variable costs and the cost coverage is applied to  
14 attributable cost, the additional piece of that subclass will be making a larger  
15 contribution to the institutional costs of the postal system relative to the piece in  
16 the subclass with no specific fixed costs. Although both products have the same  
17 volume-variable cost, use of one product will be limited to applications where it is  
18 worth at least the rate resulting from marking up both the volume-variable and  
19 specific fixed cost. In contrast, the use of the other product will be expanded  
20 until the last unit is exactly worth its volume-variable cost.<sup>7</sup>

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<sup>7</sup> The magnitude of the sacrificed economic efficiency will be affected by the two products' price-elasticities and the size of the differences between incremental and volume-variable cost.



1 In the process of assessing whether the rate levels proposed in this case  
2 are fair and equitable and further incorporate the guidance of the remaining  
3 pricing criteria, I use both volume-variable as well as incremental cost measures.  
4 The volume-variable costs by subclass are provided and compared to revenues  
5 in my Exhibits USPS-32A and USPS-32B, and the incremental costs are  
6 provided and compared to revenues in my Exhibit USPS-32E.

#### 7 **E. Ramsey Prices**

8 The issue of Ramsey pricing has arisen in previous postal rate  
9 proceedings. The Postal Service recognizes that the Act directs that postal  
10 ratemaking consider a variety of factors, many of which are not directed toward  
11 economic efficiency. The Postal Service does not advocate a mechanistic  
12 application of this approach to pricing. Nevertheless, the Ramsey model  
13 provides a useful framework for demonstrating the effects of different pricing  
14 decisions and it provides a sense of direction toward prices that reduce the  
15 excess burden of raising the revenue needed to operate the Postal Service on a  
16 breakeven basis.

17 While no formal use is made of the Ramsey prices developed by witness  
18 Bernstein (USPS-T-41), movement of rates in the direction of Ramsey prices, all  
19 else being equal, would be viewed as economically beneficial. Movement toward  
20 or away from Ramsey prices was considered in the development of the rate level  
21 proposals in this case but did not significantly affect conclusions.

#### **IV. RATE LEVEL – MAIL CLASSES AND SPECIAL SERVICES**

In the following subsections, I discuss how the nine criteria were applied to develop rate level proposals for the subclasses not subject to the Revenue Forgone Reform Act (RFRA). Coverages for the preferred-rate subclasses are determined from the corresponding commercial subclasses, either in accordance with the RFRA or the anticipated changes to the RFRA, and are mentioned in the appropriate subsection.

##### **A. First-Class Mail**

##### **1. Letters and Sealed Parcels**

The Postal Service is proposing a cost coverage of 196 percent over volume-variable costs for First-Class Mail Letters and Sealed Parcels. This corresponds to an average rate increase of 3.5 percent for the subclass as a whole. For single-piece letters, the increase is 3.4 percent, including a one-cent increase in the first-ounce rate, to 34 cents, a one-cent increase in the additional ounce rate, and a one-cent increase in the first-ounce rate for Qualified Business Reply Mail. For work-shared letters, the average increase is 3.8 percent.

Value of service (criterion 2) for First-Class Mail letters is high in terms of both intrinsic and economic measures. With regard to the operational considerations specifically mentioned in section 3622(b)(2), First-Class Mail travels by air for trips involving considerable distance, benefits from the extensive collection system designed primarily for it, and receives a high priority of delivery relative to other non-expedited mail classes. It is sealed against inspection and receives forwarding without additional charge.

1 First-Class Mail letters have a relatively low price elasticity of demand  
2 (-0.262 reported for single-piece letters and -0.251 for workshared letters),  
3 indicating a high economic value of service, but it must be acknowledged that  
4 this elasticity may be due in part to the Private Express Statutes.

5 The effect of the proposed rate increase (criterion 4) is certainly modest.  
6 The proposed rate increase is below the system average and is expected to be  
7 implemented approximately two years after one of the lowest rate increases in  
8 the post-reorganization postal history.<sup>8</sup> This represents a rate increase that is  
9 well below overall inflation in the economy. Consequently, First-Class Mail users  
10 are not being disproportionately burdened when compared to other postal  
11 customers. The percentage increase for First-Class Letters of 3.5 percent ranks  
12 as one of the lowest increases proposed in this case, with Parcel Post as the  
13 only subclass receiving a lower percentage rate increase.

14 For many mailers and applications, the available alternatives (criterion 5) to  
15 First-Class Mail letters are limited. In addition to the restrictions imposed by the  
16 Private Express Statutes, considerations of cost and accessibility mean that  
17 many mailers have few practical alternatives to the use of First-Class Mail letters  
18 for transmitting correspondence, bills, and bill payments. Nevertheless, the  
19 availability of alternatives to First-Class Mail letters is clearly expanding, in the  
20 number of facsimile machines or faxing capabilities incorporated in computers, in  
21 the number of businesses and households with access to the internet, and with

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<sup>8</sup> The Commission reported a change in revenue per piece of only 1.7 percent in First-Class Letters in Docket No. R97-1. See PRC Op., R97-1, Volume 1 at page iii.

1 increased availability and acceptance of electronic payment options. The  
2 proposed modest increase does not unduly harm those customers with limited  
3 access to other alternatives and reflects the concern of the Postal Service about  
4 emerging alternatives for the other customers.

5 The degree of preparation by the mailer and its effect on reducing Postal  
6 Service costs (criterion 6) is reflected in the rate structure, which provides an  
7 array of discounts for mail that is prebarcoded and presorted. The Qualified  
8 Business Reply Mail rates reflect preparation by the recipient, who pays the  
9 postage.

10 The Postal Service is proposing only one change to the rate structure of  
11 First-Class Mail in this case, the splitting of the 3/5-digit presort discount for  
12 automation flats into two separate rate categories, one for pieces sorted to 3-  
13 digit ZIP Codes and one for pieces sorted to 5-digit ZIP Codes. This distinction  
14 between the two presort levels does add a degree of complexity to the rate  
15 schedule (criterion 7), but will better reflect the degree of mail preparation  
16 (criterion 6). Only the relatively more sophisticated mailers who participate in  
17 worksharing programs should experience a change in the rate structure, limiting  
18 the range of the impact of this increased complexity. In exchange, the change  
19 provides customers with the option of a simpler presortation for automation flats.

20 In recent proceedings, the Commission has also recognized the  
21 informational value of the business and personal correspondence that  
22 constitutes the great majority of First-Class Mail letters (criterion 8), and the

1 Postal Service accordingly has considered the informational value of First-Class  
2 Mail as well.

3 As shown in Exhibit USPS-32E, at projected test-year after-rates volumes,  
4 First-Class Letter revenue is \$36,231 million and estimated incremental cost is  
5 \$19,865 million, so that revenue clearly and substantially exceeds cost (criterion  
6 3).

7 In summary, the proposed rate level for First-Class Mail Letters and Sealed  
8 Parcels is fair and equitable (criterion 1) in accordance with a careful  
9 consideration of the section 3622(b) criteria.

## 10 2. Cards

11 The Postal Service is proposing a cost coverage of 148.5 percent over  
12 volume-variable costs for First-Class Mail cards, lower than that for First-Class  
13 Mail letters. This cost coverage is slightly lower than the cost coverage of 150.5  
14 percent recommended by the Commission in Docket No. R97-1, and  
15 corresponds to an average rate increase of 5.0 percent for the subclass as a  
16 whole. For single-piece cards, the 4.9 percent increase raises the single-piece  
17 rate one cent to 21 cents, with an unchanged rate of 18 cents for Qualified  
18 Business Reply Mail. For workshared cards, the average increase is 5.2  
19 percent.

20 The intrinsic value of service (criterion 2) for First-Class Mail cards in many  
21 ways mirrors that of First-Class Mail letters, reflecting the same priority in  
22 transportation and delivery and availability of forwarding privileges. However,  
23 this value of service is somewhat reduced because cards have a limited

1 message capacity and a lesser degree of privacy. The price elasticity for cards  
2 is much higher than for letters (-0.761 for postal cards and -0.860 for private  
3 cards), implying a lower economic value of service as well.

4 The percentage rate increase for cards is above that of First-Class Letters  
5 but slightly below the system average. This is partly due to the whole-cent  
6 rounding constraint for the single-piece rate; a one-cent increase represents a  
7 larger percentage increase on card rates than it does First-Class Mail letter rates.  
8 For administrative ease and to avoid unnecessary complexity for the general  
9 mailing public (criterion 6), the Postal Service is continuing the practice of  
10 proposing single-piece rates in whole cent increments. However, in view of the  
11 fact that the Commission reported only a 0.2 percent increase in revenue per  
12 piece for First-Class Cards in Docket No. R97-1,<sup>9</sup> and that was the first overall  
13 increase in card rates since Docket No. R90-1, the effect of the proposed  
14 increase on mailers is clearly acceptable (criterion 4).

15 In addition to the electronic alternatives mentioned in the discussion of  
16 First-Class Letters above, senders of First-Class cards may use First-Class  
17 letters for personal messages and Standard Mail (A) can be used as an  
18 alternative medium for sale announcements and other commercial messages.  
19 Thus, while available alternatives for cards are somewhat limited (criterion 5),  
20 they are not as limited as for First-Class Letters.

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<sup>9</sup> PRC Op. R97-1, Volume 1 at page iii.

1       The rate structure for First-Class Mail cards parallels that for First-Class  
2 Mail letters, so that considerations of mailer preparation (criterion 6) and  
3 simplicity (criterion 7) are also parallel.

4       At projected test-year after rates volumes, the First-Class Mail cards  
5 revenue of \$1,053 million clearly and substantially exceeds the estimated  
6 incremental cost of \$724 million (criterion 3).

7       The proposed rate level reflects a balanced consideration of all the relevant  
8 criteria and is, therefore, fair and equitable (criterion 1).

#### 9       **B. Priority Mail**

10       The Postal Service is proposing a cost coverage of 180.9 percent over  
11 volume variable costs for Priority Mail, which corresponds to an average rate  
12 increase of 15.0 percent. Both the cost coverage and the rate increase are  
13 substantially above the system average. The cost coverage is also above the  
14 cost coverage of 166 percent recommended by the Commission in Docket No.  
15 R97-1. Given the presence of not insignificant specific fixed costs for Priority  
16 Mail, a closer comparison to the Commission's cost coverage from R97-1 may  
17 be made to a ratio of the Priority Mail revenue to incremental cost than to volume  
18 variable cost. The markup of Priority Mail revenue to incremental cost is 62.7  
19 percent, just a few percentage points below the Commission's recommended  
20 markup from R97-1.

1 Priority Mail has a fairly high intrinsic value of service (criterion 2) as it  
2 enjoys the same priority of delivery as First-Class letters and makes use of air  
3 transportation. Unzoned, lightweight Priority Mail pieces, which constitute a large  
4 share of Priority Mail's volume, also enjoy the convenience of the collection  
5 system if they are under one pound in weight or are metered. The availability of  
6 Delivery Confirmation Service will also contribute to its intrinsic value of service.  
7 On the other hand, the Priority Mail price elasticity (-0.819) is considerably higher  
8 (in absolute value) than that of First-Class Letters, indicating a lower economic  
9 value of service. This measured own-price elasticity is also somewhat higher (in  
10 absolute value) than the Priority Mail own-price elasticity reported in Docket No.  
11 R97-1 of (-0.771).

12 The value of service for Priority Mail can also be viewed in comparison to  
13 similar services provided by private companies. Priority Mail service does not  
14 necessarily include all of the product features, such as guaranteed service  
15 commitments, free insurance and free tracking service, offered as part of the  
16 service provided by such competitors as United Parcel Service, FedEx and other  
17 private service providers. The addition of Delivery Confirmation and Signature  
18 Confirmation services to Priority Mail, as well as the use of Priority Mail  
19 Processing Centers (PMPCs) in an effort to improve Priority's service, may be  
20 helping to move the perception of Priority Mail service closer to the image of the  
21 services provided by the private firms.

22 The availability of alternatives to Priority Mail service was considered in two  
23 ways as criterion 5 of the pricing criteria was examined. First, while private firms



offer delivery services that could be considered comparable to Priority Mail service, some materials shipped as Priority Mail are subject to the Private Express Statutes. Second, as noted above in the discussion of criterion 2, the relative levels of service offered by Priority Mail and its competitors may not be comparable. Merchandise shipped as Priority Mail could be sent as Parcel Post, or perhaps another category of Standard Mail (B), should the level of service provided by Priority Mail not be necessary.

The 15.0 percent rate increase, significantly above the system average, is also much higher than the rate of general inflation in the economy as a whole and can be expected to have an impact on Priority Mail users (criterion 4). Priority Mail received a rate increase more than twice the system average in Docket No. R97-1, although that increase was only a fraction of the increase that must be proposed in this case. The large increase in costs, coupled with the change in the maximum weight for First-Class Mail and resulting decrease in Priority Mail volume, would have led to a larger rate increase in this proceeding in the absence of some tempering of the cost coverage.

The Priority Mail rate structure is relatively simple (criterion 7), with unzoned rates up to five pounds, where much of the volume is concentrated, and an understandable weight- and distance-based structure for heavier pieces. In the current case, the Postal Service is proposing a rate for one-pound pieces. While the proposed one-pound rate differs from the proposed rate for two-pound pieces, slightly complicating the Priority Mail rate schedule, the structure remains simple and easy to understand. Indeed, the addition of the one-pound rate may

1 increase the reasonableness of the rate structure in the eyes of the public by  
2 providing a rate for lower-weight, and modestly lower-cost pieces. In addition,  
3 the rate for one-pound pieces will reduce the weight step between First-Class  
4 Mail and Priority Mail and reduce the "gap" or rate differential between the  
5 maximum First-Class Mail rate and the minimum Priority Mail rate, thus  
6 smoothing the transition from one class to the other.

7 At projected test year after rates volumes, revenue is \$5,542 million and  
8 estimated incremental cost is \$3,407 million, so that revenues are clearly and  
9 substantially above the costs associated with Priority Mail (criterion 3). The  
10 substantial margin between the revenue and incremental cost, coupled with the  
11 significantly larger-than-average rate increase will ensure that the rate increase  
12 is not unfair to competitors (criterion 4).

13 The proposed rate level is appropriate in light of a balanced and proper  
14 consideration of all relevant criteria. It is fair and equitable (criterion 1) to both  
15 mailers and competitors.

### 16 **C. Express Mail**

17 The Postal Service is proposing an Express Mail cost coverage of 222.2  
18 percent over volume-variable costs. As with Priority Mail, the specific fixed costs  
19 for Express Mail are significant. Thus, the comparison of the ratio of revenue to  
20 incremental cost may bear a closer resemblance to the Commission's Docket  
21 No. R97-1 cost coverage, which was a 13.6 percent markup over attributable

1 costs. The test year after rates revenue for Express Mail at the proposed rate  
2 increase in this case shows a markup of 47.7 percent over incremental costs.

3 This increase in cost coverage comes with a modest increase in rates of  
4 3.8 percent, well below the system average increase. The rate level for Express  
5 Mail is significantly higher than proposed or recommended in recent rate cases.  
6 However, in the cases preceding Docket No. R97-1, the markup for Express Mail  
7 was intentionally mitigated in order to preserve the class of mail in the context of  
8 increasing competition. See PRC Op. R97-1, Vol. 1 at 264. It is my belief that  
9 the rate level proposed by the Postal Service in this docket is suitable for an  
10 expedited and competitive service of relatively high value, and that the class of  
11 mail has demonstrated sufficient stability in costs and volumes to be able to  
12 endure the relatively low rate increase required to obtain this rate level.

13 Express Mail's value of service (criterion 2) is very high when intrinsic  
14 factors are considered. It receives the highest priority of delivery, use of  
15 extensive air transportation and a substantial collection system, though not as  
16 extensive as the general collection system used by First-Class Mail. Express  
17 Mail also benefits from tracking capability and a service guarantee. On the other  
18 hand, Express Mail's price elasticity, at (-1.565), is the highest own-price  
19 elasticity of all the subclasses, well above 1.0 in absolute value. This indicates  
20 an extremely low economic value of service. Express Mail's value of service  
21 when compared to similar expedited services provided by private companies  
22 does not appear to be as high as when it is compared to other postal services.  
23 At minimum, the overnight service areas of Express Mail are not as extensive as

1 those offered by the dominant overnight service providers, nor does the Postal  
2 Service extend billing to its customers. Unlike many customers of private  
3 expedited delivery firms, users of Express Mail are expected to either pay when  
4 tendering the mailpiece to the Postal Service, or maintain a balance in their  
5 corporate account.

6 The 3.8 percent increase, well below the system average, will have a  
7 modest and reasonable effect on mailers (criterion 4), even after considering the  
8 high own-price elasticity of demand for this product. Given Express Mail's small  
9 presence in the market for expedited delivery, its modest growth (about 4  
10 percent in FY 1998 in the absence of a rate increase), and the rate increase in  
11 Docket No. R97-1 that was well above the system average, the proposed rate  
12 increase should not have a significant effect on competitors.

13 There are a number of private-sector alternatives available to Express Mail  
14 users (criterion 5). While additional service features or more extensive overnight  
15 service areas may be available from these private carriers, these alternatives  
16 may only be available at a higher price for the individuals and small-volume  
17 business users who appear to account for the bulk of Express Mail.

18 The Express Mail rate schedule provides for separate rates depending on  
19 whether the customer picks up the Express Mail at the post office or has the item  
20 delivered by the Postal Service, and whether the piece is dropped off at the post  
21 office or picked up by the Postal Service. The customer who drops off or picks  
22 up the piece at the post office reduces postal costs and the rate schedule

1 reflects lower rates for this cost-saving activity by senders and recipients  
2 (criterion 6). No changes to the Express Mail rate schedule are contemplated in  
3 this case. Thus, there is no change in the relative level of simplicity of the rate  
4 schedule (criterion 7).

5 At projected test year after rates volumes, revenue is \$1,069 million and  
6 estimated incremental cost is \$723 million, so that revenues clearly and  
7 significantly exceed the costs associated with Express Mail (criterion 3).

8 Criterion 8, ECSI value, did not result in an adjustment to the Express Mail  
9 cost coverage. The proposed rate level is fair and equitable (criterion 1),  
10 reflecting a consideration of all the relevant criteria, including the effects on  
11 Express Mail users as well as competitors.

## 12 **D. Periodicals**

### 13 **1. Outside County**

14 The Postal Service is proposing a new structure for Periodicals mailed  
15 outside county. What are currently three separate subclasses -- Regular,  
16 Classroom and Nonprofit -- will be merged into one subclass. The preferred rate  
17 status of Classroom and Nonprofit mailers will be maintained by providing for a  
18 discount off of the bottom line, excluding the charges for advertising pounds. In  
19 order to maintain a basis for the RFRA-dictated markup relationship between  
20 Within County and a non-preferred category, a cost coverage for Outside County  
21 is calculated prior to taking the discount for the preferred Classroom and

1 Nonprofit periodicals. Thus, two cost coverages are of interest when considering  
2 the Outside County subclass: the cost coverage before the preferred rate  
3 discounts, to which Within County's' cost coverage is tied; and the resulting cost  
4 coverage of the merged Outside County subclass for purposes of evaluating the  
5 nine pricing criteria.

6 A cost coverage of 101.45 percent over volume-variable costs is proposed  
7 for Outside County Periodicals, calculated prior to the administration of the  
8 discount to the preferred rate categories within the subclass. This rate level will  
9 result in an after-rates, after-discount cost coverage of 101.37 percent for  
10 Outside County Periodicals, and implies an average rate increase of 12.7  
11 percent for the subclass. This percentage increase is substantially above the  
12 system average and exceeds the rate of general inflation. In the most recent  
13 omnibus case, the Commission recommended increases for the Outside County  
14 Periodicals ranging from an increase in revenue per piece of 4.6 percent for  
15 Regular Rate to 12.1 percent for Classroom periodicals. At the same time, the  
16 Commission reported a system average increase of only 3 percent. The  
17 increases being proposed for Outside County Periodicals in this case are even  
18 higher, meaning that these mailers will have absorbed consecutive rate  
19 increases substantially above the system average increase approximately two  
20 years apart.

21 The value of service (criterion 2) received by Periodicals is moderately high  
22 in terms of intrinsic service characteristics. However, it is not as high as First-  
23 Class Mail, since Periodicals are not afforded collection service, receive little air

1 transportation, and receive forwarding at no additional charge for a shorter  
2 period. Periodicals have a higher priority of delivery than Standard Mail. The  
3 own-price elasticity for (Regular) Periodicals is very low (-0.154), even lower than  
4 that of First-Class Mail, which, presumably, is influenced by the Private Express  
5 Statutes. This indicates a correspondingly quite high economic value of service  
6 for Periodicals.

7       The educational, cultural, scientific and informational value (criterion 8) of  
8 Periodicals has historically led to relatively low cost coverages for this mail, and  
9 this factor has been fully considered in setting the proposed Regular Periodicals  
10 coverage. In this case, however, the proposed coverage has been further  
11 reduced due to consideration of the effect of rate increases (criterion 4). Without  
12 this consideration, the large increase in unit costs would have led to even higher  
13 percentage rate increases for Outside County Periodicals. Despite the  
14 objectives of both the Postal Service and the Commission in previous cases to  
15 move the cost coverages for Periodicals mail upward to provide a more  
16 meaningful contribution to other costs, the recent increase in costs precludes  
17 doing so at this time. The Postal Service continues in its efforts to understand  
18 what factors may have contributed to increases in flats mail processing costs,  
19 especially for Periodicals. The Postal Service is also committed to working with  
20 Periodicals mailers to reverse the cost trends of recent years. Periodicals  
21 mailers experienced rate increases as a result of Docket No. R97-1 and  
22 increases as a result of Classification Reform. Under criterion 4, these recent  
23 increases in rates were also taken into account.

1 Non-postal alternatives (criterion 5) include alternate delivery firms,  
2 newsstand sales and electronic transmission, but the degree to which different  
3 publications can utilize these alternatives varies considerably.

4 The Periodicals rate structure is far from simple, reflecting the various  
5 means by which Periodicals mailers may reduce postal costs by preparing their  
6 mail (criterion 6). However, in this proceeding the revised approach to rate  
7 design for Outside County Periodicals will greatly reduce the number of rates  
8 and the possibility of rate anomalies across subclasses. The imposition of a  
9 simple, bottom-line discount for preferred rate mailers off of their nonadvertising  
10 rates will somewhat improve the degree to which there are simple,  
11 understandable relationships between rates (criterion 7).

12 Revenue for the Outside County subclass at projected test year after rates  
13 volumes is \$2,417 million, which adequately exceeds the estimated incremental  
14 cost for this new subclass (criterion 3).

15 The proposed rate level is fair and equitable (criterion 1); it has been  
16 developed after a careful consideration of all the criteria, particularly taking into  
17 account the effect on users.

## 18 **2. Preferred Rate**

19 The RFRA requires that Within County, Nonprofit, and Classroom  
20 periodicals each have a markup equal to one-half that of Regular Periodicals for  
21 full rates. As was described earlier in my testimony, the Postal Service



1 anticipates amendments to the RFRA which will retain the preferred rate status  
2 of Within County through the use of a markup one-half that of the markup of  
3 Outside County mail, as calculated prior to accounting for the discounts given to  
4 Nonprofit and Classroom publications. Rather than use the markup relationship  
5 currently dictated by the RFRA for Classroom and Nonprofit mailers, it is  
6 anticipated that legislative amendments will permit the same rate schedule to be  
7 applied to all Outside County publications, with a bottom-line discount provided  
8 for the nonadvertising revenue of Classroom and Nonprofit mailers. Accordingly,  
9 the Postal Service's treatment of preferred rate mail in this proceeding reflects  
10 these anticipated legislative changes.

11 **E. Standard Mail (A)**

12 **1. Regular**

13 The Postal Service is proposing a cost coverage of 132.9 percent over  
14 volume-variable costs for the Regular subclass, which results in an average rate  
15 increase of 9.4 percent.

16 In common with other Standard subclasses, Regular has a relatively low  
17 intrinsic value of service (criterion 2) due to its deferability for delivery, use of  
18 ground transportation, lack of access to the collection system and absence of  
19 free forwarding. Although the Postal Service may attempt to satisfy mailer  
20 requests for delivery within a specific time frame, these typically involve advance  
21 planning and coordination by the mailer in order to facilitate the achievement of  
22 these delivery requests. The price elasticity for Regular (-0.570) is higher than  
23 was estimated in Docket No. R97-1 and higher than that of First-Class Letters.

1 However, it is lower than that of Enhanced Carrier Route, suggesting an  
2 intermediate economic value of service. The availability of new ancillary  
3 services, notably Delivery Confirmation and bulk insurance, to some Regular  
4 Standard Mail (A) mailers is hoped to slightly increase the value of the service to  
5 these users.

6 The 9.4 percent average rate increase is above the rate of inflation and  
7 higher than the system average increase of 6.4 percent, resulting in a noticeable,  
8 but reasonable, impact on the users of Regular mail (criterion 4). However, the  
9 rate increase experienced by Regular Standard Mail (A) in Docket No. R97-1  
10 represented only a 1.2 percent increase in revenue per piece as reported by the  
11 Commission.<sup>10</sup> The fact that the Regular increase proposed in this case is  
12 above the system-average increase, together with the 132.9 percent cost  
13 coverage over volume-variable costs, suggests that competitors are not unfairly  
14 targeted by this increase.

15 The Regular subclass is somewhat more suited to demographic targeting of  
16 commercial messages and the Enhanced Carrier Route subclass is somewhat  
17 more suited to geographic targeting. For this reason, the availability of  
18 alternatives (criterion 5) is somewhat less for Regular, but a number of  
19 alternatives for demographically targeted advertising exist, including special-  
20 interest magazines, cable television, and internet websites.

21 The mail within the Regular subclass all has a substantial degree of mailer  
22 preparation (criterion 6), with some of it being both prebarcoded and sorted to 5-

1 digit areas. Overall, however, it does not have the same degree of preparation  
2 as Enhanced Carrier Route. The rate schedule for Standard Mail (A) is explicitly  
3 designed to offer a range of rates to reflect the varying ways that the mailers may  
4 choose to perform worksharing, preparing mail so as to bypass postal operations  
5 and/or transportation and reduce postal costs (criterion 6), which means that the  
6 rate schedule is not particularly simple (criterion 7). However, as the rates for  
7 Standard Mail (A) only apply to bulk-entered mail, the users of Standard Mail (A)  
8 tend to be sophisticated users of the postal system or utilize the services of  
9 those more expert in postal matters, permitting the requirement of criterion 7 to  
10 manifest itself more in terms of creating reasonable and identifiable rate  
11 relationships rather than a limited number of rates.

12 At projected test year after rates volumes, the \$9,070 million revenue from  
13 the subclass easily exceeds its estimated incremental cost of \$6,938 million  
14 (criterion 3).

15 The proposed rate level is fair and equitable (criterion 1), having  
16 appropriately balanced all the relevant criteria.

## 17 **2. Nonprofit**

18 The RFRA directs that the Standard A Nonprofit subclass is to have a  
19 markup equal to one-half that of Standard A Regular for full rates. The cost  
20 coverage for Standard A Nonprofit proposed in this case is 116.8 percent, as

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(...continued)

<sup>10</sup> The Postal Service has calculated this increase as having been 2.6 percent, after backing out the effects of mail migrating from ECR.

1 measured relative to volume-variable costs. For the test year, the application of  
2 this markup results in a rate increase of 5.6 percent.

### 3 **3. Enhanced Carrier Route**

4 The Postal Service is proposing a cost coverage of 208.8 percent over  
5 volume variable costs for the Enhanced Carrier Route (ECR) subclass, which  
6 results in a 4.9 percent average rate increase. This is somewhat below the  
7 system average increase, reflecting a desire to lower the very high cost coverage  
8 of this subclass.

9 In common with Regular, the intrinsic value of service (criterion 2) for ECR  
10 is relatively low (criterion 2), since it lacks access to the collection system,  
11 receives ground transportation, has no free forwarding and its delivery may be  
12 deferred. The Postal Service may be able to accommodate mailer requests for  
13 delivery within a specific time frame, again requiring mailer preparation,  
14 coordination, and planning. The regularity with which some of the high-density  
15 and saturation rate category mailings are deposited may facilitate the delivery of  
16 the mailpiece within the mailer's desired time frame. The price-elasticity of ECR  
17 (-0.808) is higher in absolute value than that of Standard Mail (A) Regular or  
18 First-Class letters, indicating a relatively low economic value of service.

19 The average rate increase for ECR is slightly below the rate of inflation,  
20 limiting its effect on mailers (criterion 4). Given the very high cost coverage of  
21 the ECR subclass, this rate increase does not result in unfair competition for its  
22 competitors.

1 Users of ECR mail have available a range of alternatives (criterion 5); due  
2 to its geographic concentration, both alternate delivery firms and newspaper  
3 inserts may provide ways of delivering the same advertising message that would  
4 be carried in ECR. Relative to other mail, ECR has a very high degree of  
5 preparation by the mailer (criterion 6); even the basic rate category must be line-  
6 of-travel sequenced, and the high-density and saturation categories are walk-  
7 sequenced. As was true for Regular Standard Mail (A), the rate schedule  
8 balances the need for simplicity (criterion 7) with the desire to offer relatively  
9 sophisticated mailers, who are used to rate complexity, a range of rates reflective  
10 of their preparation of the mail to avoid postal costs (criterion 6).

11 At projected test year after rates volumes, revenue is \$5,162 million and  
12 estimated incremental cost is \$2,617 million, so that revenue exceeds the costs  
13 associated with ECR by a wide margin (criterion 3).

14 Although the percentage rate increase for this subclass is below the system  
15 average in this case, many of the factors considered above would indicate a cost  
16 coverage even lower than that actually proposed. However, this would mean  
17 shifting the additional burden of covering institutional costs to other subclasses.

18 In view of the modest average ECR rate increase of 4.9 percent and given  
19 the need to maintain rate relationships across subclasses, I believe that the rate  
20 level proposed for ECR satisfies the fairness and equity criterion (criterion 1).

#### 21 **4. Nonprofit Enhanced Carrier Route**

22 Under the RFRA, the Nonprofit Enhanced Carrier Route subclass is  
23 required to have a markup equal to one-half that of commercial ECR, or a

1 coverage of 154 percent. Had this markup been applied in the test year, the  
2 necessary rate increase would have been more than 30 percent. Criterion 4, the  
3 effect of the increase on mailers, suggests that such an increase would have  
4 been unreasonable. Moreover, it would appear to contravene the apparent  
5 intent of RFRA to provide reasonable increases for preferred customers.

6 Therefore, the Postal Service's proposed rate level for this subclass is consistent  
7 with its anticipation of legislative change that would limit the upward range of  
8 difference in the rate increases for ECR and Nonprofit ECR mail.

#### 9 **F. Standard Mail (B)**

##### 10 **1. Parcel Post**

11 The Postal Service is proposing a Parcel Post cost coverage of 114.1  
12 percent over volume-variable costs, which corresponds to a modest average rate  
13 increase of 1.3 percent for the subclass.

14 In general, Parcel Post exhibits a low intrinsic value of service (criterion 2);  
15 it has a low delivery priority and primarily uses ground transportation. Due to  
16 increased security concerns, it no longer enjoys its former access to the  
17 collection system. When compared to the service provided by private sector  
18 delivery firms, Parcel Post does not offer many of the standard features – such  
19 as free insurance, tracking service and free pickup service – that add value to  
20 the private services. The availability of Delivery Confirmation for Parcel Post  
21 may increase its value for some customers, although Parcel Post customers  
22 must pay extra for this feature, unlike Priority Mail users. Moreover, the Parcel  
23 Post own-price elasticity estimated for this case is above 1.0 in absolute value

1 (-1.23), indicating a low economic value of service. Only Express Mail exhibits a  
2 higher (in absolute value) price elasticity.

3 The proposed 1.3 percent average increase is one of the lowest in this  
4 proceeding, and is expected to have little effect on mailers who use Parcel Post  
5 (criterion 4). There is little doubt that competitors of Parcel Post will continue to  
6 compete successfully despite the relatively low increase in Parcel Post rates,  
7 especially considering the large increase in rates experienced by this subclass  
8 as a result of Docket No. R97-1.

9 In one sense, alternatives to Parcel Post are plentiful, especially for large-  
10 volume business shippers. For individuals, these alternatives are not uniformly  
11 accessible. Direct access to competitors' services may be limited to a few  
12 locations, while commercial mail sending and receiving services may charge a  
13 premium over the competitors' standard rates. For mailers in more remote  
14 locations, there may be no practical alternative to Parcel Post. Consideration of  
15 the impact of larger possible rate increases facing these individual mailers  
16 (criterion 4), many of whom received substantial rate increases as a result of  
17 Docket No. R97-1, provides further reason to mitigate the increase in rates at  
18 this time.

19 The Parcel Post rate structure was enhanced in Docket No. R97-1 by the  
20 addition of rate categories that rewarded mailer efforts to prepare mail so as to  
21 reduce postal costs (criterion 6), notably with new presort, dropship and  
22 prebarcoding discounts. These new rate features increased the complexity of  
23 the rate structure (criterion 7), but in such a way as to be more consistent with

1 the worksharing opportunities afforded mailers in other classes such as Standard  
2 Mail (A) and Periodicals. The Postal Service is proposing few additional rate  
3 elements for Parcel Post in this case. The only structural changes requested  
4 are: (1) the extension of a nonmachinable surcharge to dropship and Intra-BMC  
5 pieces and (2) an adjustment to the minimum weight for the subclass to allow  
6 mailers to send material weighing less than one pound at Parcel Post rates.

7 This adjustment to the minimum weight will offer a choice of subclasses to  
8 mailers who might have previously used Single-Piece Standard Mail (A), a  
9 subclass that was eliminated as a result of Docket No. R97-1. These mailers  
10 have had to rely on postal alternatives such as Priority Mail or First-Class Mail.  
11 The option of sending pieces under one pound as Parcel Post may make mail  
12 preparation simpler for some mailers who desire to ship a variety of merchandise  
13 of varying weights as Parcel Post and take advantage of the worksharing  
14 opportunities afforded by the rate schedule without splitting the shipment into  
15 separate subclasses.

16 At projected test year after rates volumes, revenue from Parcel Post is  
17 \$1,200 million and estimated incremental cost is \$1,061 million, so that revenue  
18 is well above cost (criterion 3). In past rate proceedings, the revenue from Parcel  
19 Post was not expected to exceed costs by such a large margin. Motivated in part  
20 by the declines or slow growth in Parcel Post volume, the Commission, as well  
21 as the Postal Service, mitigated rate increases for Parcel Post by reducing its  
22 cost coverage. Otherwise, Parcel Post would have experienced even larger rate  
23 increases than it did. For example, in Docket No. R97-1, the Commission, in



1 recommending an historically low cost coverage for Parcel Post of only 108  
2 percent, returned recommended rates that were still 12 percent higher than the  
3 existing rates.

4 Subsequent to Docket No. R97-1, the Postal Service improved its data  
5 collection for Parcel Post volume, with the result that the reported volume and  
6 revenue of Parcel Post increased. This increase in reported volume and  
7 revenue reduced the unit cost of Parcel Post and increased the reported cost  
8 coverage. Thus, part of the reason for a relatively low increase in Parcel Post  
9 rates proposed for this proceeding is the adoption of the new information and the  
10 implications for reporting the Parcel Post cost coverage.

11 The proposed rate level is fair and equitable (criterion 1), reflecting a  
12 balanced consideration of the relevant criteria and taking into consideration the  
13 interests of both large and small users of Parcel Post and its competitors.

## 14 **2. Bound Printed Matter**

15 The Postal Service is proposing a cost coverage of 117.6 percent over  
16 volume-variable costs for Bound Printed Matter (BPM); this results in an average  
17 rate increase of 18.1 percent, the highest rate increase proposed for any  
18 subclass in this case.

19 In common with Parcel Post, the intrinsic value of service for Bound Printed  
20 Matter is relatively low (criterion 2). On the other hand, its own-price elasticity is  
21 ( $-0.392$ ), or a little less (in absolute value) than that of Standard Mail (A)  
22 Regular, suggesting a moderately high economic value of service.

1       The 18 percent rate increase for Bound Printed Matter, much higher than  
2       the system average, will obviously affect users of Bound Printed Matter (criterion  
3       4). This negative impact on some mailers will be offset somewhat by the  
4       introduction of dropshipping discounts to the Bound Printed Matter rate design.  
5       However, many mailers will be receiving substantial increases in their rates. Had  
6       the Postal Service proposed rates consistent with the cost coverage  
7       recommended by the Commission in Docket No. R97-1, the rate increase would  
8       have been significantly higher. The proposed increase of 18 percent, associated  
9       with a cost coverage of 118 percent, represents a substantial mitigation of the  
10      impact of cost increases since Docket No. R97-1. Despite mitigating the impact  
11      of the cost increases and reducing the cost coverage for Bound Printed Matter,  
12      the size of the rate increase and the proposed cost coverage will still result in a  
13      substantial contribution and ensure that potential competitors are not unfairly  
14      targeted (criterion 5).

15      The alternatives available to Bound Printed Matter users vary (criterion 5).  
16      For mailers of books, the Special Standard subclass provides an alternative  
17      postal service in addition to private sector delivery firms. For mailers of catalogs  
18      and telephone directories, alternate delivery firms provide at least a potential  
19      alternative, although there do not appear to be widespread efforts by such firms  
20      to develop service offerings targeted at this portion of Bound Printed Matter.  
21      Some of the uses for catalogs and directories may be satisfied by internet  
22      access to the material and listings.

1 Over a period of years, a substantial number of books have been mailed as  
2 Bound Printed Matter. The Commission accordingly has given the subclass  
3 some ECSI consideration in setting rate levels, and the Postal Service proposal  
4 in this proceeding does so as well (criterion 8).

5 The introduction of dropshipping discounts to the Bound Printed Matter rate  
6 design will increase its complexity (criterion 7), but will – as in other subclasses  
7 with similar worksharing incentives – help to create rate relationships that  
8 correspond more closely to the effort put forth by the mailer in preparing Bound  
9 Printed Matter (criterion 6).

10 At projected test year after rates volumes, revenue is \$563 million and  
11 estimated incremental cost is \$482 million, ensuring that the estimated cost is  
12 more than adequately covered (criterion 3).

13 The proposed rate level reflects an appropriate balance among all of the  
14 criteria of section 3622(b) and is, therefore, fair and equitable.

### 15 3. Special

16 The Postal Service is proposing a cost coverage of 112.5 percent over  
17 volume-variable costs for the Special Standard subclass, translating into a 4.9  
18 percent average rate increase for the subclass.

19 As is true for the other Standard Mail (B) subclasses, the intrinsic value of  
20 service for the Special subclass is relatively low (criterion 2), given the use of  
21 ground transportation and the lack of priority in delivery. Its price elasticity is  
22 ( $-0.296$ ), between those estimated for First-Class Letters and Bound Printed  
23 Matter, suggesting a moderately high economic value of service.

1       The 4.9 percent increase in rates is somewhat below the system average  
2 and is not expected to have an unacceptable effect on current users of the  
3 Special subclass (criterion 4), particularly considering that the rates for this  
4 subclass were reduced nearly 10 percent in the most recent omnibus rate case.  
5 For many business users of the Special subclass who are shipping books or  
6 similar materials, the Bound Printed Matter subclass provides an alternative  
7 postal service (criterion 5), but for many individual users, alternatives are more  
8 limited.

9       The books, films, sound recordings and similar matter mailed in the Special  
10 subclass have a significant ECSI value (criterion 8), and this has been taken into  
11 account in setting the cost coverage for this subclass.

12       No changes to the rate structure for Special Standard are proposed in this  
13 case. The rate structure is relatively straightforward (criterion 7) while still  
14 providing some rate incentives for mailers to prepare mail so as to avoid some  
15 postal costs (criterion 6).

16       At projected test year after rates volumes, estimated revenue of \$339  
17 million will exceed the estimated incremental cost of \$302 million (criterion 3).

18       The proposed rate level reflects a careful consideration of the applicable  
19 criteria and is therefore fair and equitable (criterion 1).

#### 20           **4.   Library**

21       The RFRA prescribes that the Standard Mail (B) Library subclass have a  
22 markup equal to one-half that of Special Standard for full rates. In Docket No.  
23 R97-1, the resulting rates from the application of the RFRA would have led to

1 Library rates higher than those of Special and would have likely spelled the end  
2 of the subclass. The Postal Service proposed a set of Library rates but  
3 recognized that the vast majority of eligible Library mail would shift to Special  
4 rates. In an effort to give effect to the intent of Congress and preserve the  
5 preferred rate Library subclass, the Commission recommended that Library and  
6 Special subclasses share a common set of rates.

7 In this docket, the costs of Library mail suggest that it may again be  
8 possible to differentiate the Library rates from those of Special, permitting Library  
9 mail to again be a preferred rate subclass. However, if the apparent intent of the  
10 RFRA were applied in this case, the resulting rates for Library would be higher  
11 than those of the Special subclass. Therefore, the Postal Service's proposal for  
12 the Library subclass reflects its anticipation that a legislative change will amend  
13 the RFRA to require that the Library rates must be at least one cent per piece  
14 lower than those for a comparable piece of Special.

15 Assuming the enactment of this change for the test year, the Postal Service  
16 proposes that the resulting cost coverage for Library subclass be 104.7 percent  
17 over volume variable costs, resulting in an average rate increase of 4.5 percent.  
18 The revenue from the subclass is estimated, at test year after rates volumes, to  
19 be \$49.7 million and the incremental cost is estimated to be \$47.5 million, thus  
20 ensuring that the estimated costs of the subclass are covered.

## 21 **G. Special Services**

22 The detailed development of the Postal Service's proposed fee levels is  
23 described in the testimony of Postal Service Mayo (USPS-T-39). The testimony

- 1 of witness Mayo discusses in detail the proposed fee levels in the context of the
- 2 section 3622(b) criteria and proposed classification changes in the context of the
- 3 section 3623(c) criteria.

**Summary of Estimated Test Year Before Rates Finances  
Revenue and Volume Variable Cost  
(Dollars in Thousands)**

<u>Description</u>	<u>Volume Variable Cost (1)</u>	<u>Revenue (2)</u>	<u>Revenue as Percent of Cost (Col.2/Col. 1) (3)</u>	<u>Revenue Minus Vol. Var. Cost (Col. 2 - Col. 1) (4)</u>
First-Class Mail				
Single-Piece Letters and Sealed Parcels	13,515,330	22,384,156	165.6%	8,868,826
Presort and Automation Letters	5,050,613	12,758,824	252.6%	7,708,211
Total Letters	18,565,943	35,142,980	189.3%	16,577,037
Single-Piece Cards	554,794	592,509	106.8%	37,715
Presort and Automation Cards	172,879	436,738	252.6%	263,859
Total Cards	727,673	1,029,247	141.4%	301,574
Total First-Class Mail	19,293,616	36,172,228	187.5%	16,878,612
Priority Mail	3,263,396	5,229,846	160.3%	1,966,450
Express Mail	476,631	1,019,497	213.9%	542,866
Mailgrams	991	1,136	114.6%	145
Periodicals				
Within County	82,227	76,286	92.8%	(5,941)
Outside County				
Nonprofit	370,280	319,556	86.3%	(50,724)
Classroom	14,284	12,986	90.9%	(1,298)
Regular-Rate	2,031,214	1,833,845	90.3%	(197,369)
Total Periodicals	2,498,005	2,242,674	89.8%	(255,331)
Standard Mail (A)				
Regular	7,125,095	8,653,220	121.4%	1,528,125
Enhanced Carrier Route	2,527,785	5,036,496	199.2%	2,508,711
Total Commercial	9,652,880	13,689,715	141.8%	4,036,835
Nonprofit	1,326,100	1,458,641	110.0%	132,541
Enhanced Carrier Route	212,388	232,440	109.4%	20,052
Total Nonprofit	1,538,488	1,691,081	109.9%	152,593
Total Standard Mail (A)	11,191,368	15,380,796	137.4%	4,189,428
Standard Mail (B)				
Parcel Post	1,078,203	1,198,489	111.2%	120,286
Bound Printed Matter	493,424	492,554	99.8%	(870)
Special Rate	304,846	327,631	107.5%	22,785
Library Rate	48,295	48,517	100.5%	222
Total Standard Mail (B)	1,924,768	2,067,171	107.4%	142,403
Free-for-the-Blind	40,302	0	0.0%	(40,302)
Total Domestic Mail	38,689,077	62,113,347	160.5%	23,424,270
International Mail	1,473,998	1,741,131	118.1%	267,133
Total All Mail	40,163,075	63,854,478	159.0%	23,691,403
Special Services				
Registry	89,271	81,435	91.2%	(7,836)
Certified Mail	494,945	414,039	83.7%	(80,906)
Insurance	78,162	89,575	114.6%	11,413
COD	15,104	18,373	121.6%	3,269
Money Orders *	159,605	283,544	177.7%	123,939
Stamped Cards	3,444	4,456	129.4%	1,014
Stamped Envelopes	12,542	12,515	99.8%	(27)
Box/Caller Service	597,451	746,829	125.0%	149,378
Other	141,152	397,604		256,452
Total Special Services	1,591,676	2,048,373	128.7%	456,697
Total Mail & Services	41,754,751	65,902,851	157.8%	24,148,100
Other Costs	27,992,970			
Other Income		383,847		
Prior Years Loss Recovery	268,257			
Continuing Appropriations		67,093		
Investment Income *		(25,390)		
Grand Total	70,015,978	66,328,401	94.7%	(3,687,577)

\* Money order revenues include interest of 52,590

Source: Volume Variable Costs from USPS-T-14, WP H, Table E. Revenues from USPS-T-33, USPS-T-34, USPS-T-35, USPS-T-36, USPS-T-37, USPS-T-38 and USPS-T-39.

**Summary Distribution of Domestic Mail Fees to Subclass  
Test Year Before Rates  
(Thousands of Dollars)**

	<u>Letters and Sealed Parcels</u>		<u>Stamped</u>	<u>Cards</u>		<u>Total</u>
	<u>Single Piece</u>	<u>Worksharing</u>		<u>Single Piece</u>	<u>Private Worksharing</u>	
<u>First Class</u>						
Pieces (millions)	53,214	47,048	446	2,405	2,734	105,847
Percent of Pieces	50.27%	44.45%	0.42%	2.27%	2.58%	100.00%
Address Correction	15,932	14,086	133	720	819	31,690
Business Reply	116,108	—	—	5,248	—	121,356
Certificate of Mailing	5,673	202	48	256	12	6,191
Presort Permit Fee	—	4,558	—	—	265	4,823
Merch. Return Permit Fee	0	29	0	0	0	29
<u>Total</u>	<u>137,713</u>	<u>18,875</u>	<u>181</u>	<u>6,224</u>	<u>1,095</u>	<u>164,089</u>
<u>Priority Mail</u>						<u>Total</u>
Address Correction						77
Business Reply						469
Certificate of Mailing						138
Merch. Return Permit Fee						19
<u>Total</u>						<u>703</u>
<u>Periodicals</u>	<u>Within County</u>	<u>Nonprofit</u>	<u>Classroom</u>		<u>Regular Rate</u>	<u>Total</u>
Pieces (millions)	872	1,954	56		7,546	10,429
Percent of Pieces	8.36%	18.74%	0.54%		72.36%	100.00%
Address Correction	1,636	3,666	105		14,156	19,564
Application Fees	60	135	4		522	721
<u>Total</u>	<u>1,697</u>	<u>3,802</u>	<u>109</u>		<u>14,678</u>	<u>20,285</u>
<u>Standard Mail A</u>			<u>Regular</u>	<u>Nonprofit</u>		<u>Total</u>
Pieces (millions)			76,414	14,418		90,832
Percent of Pieces			84.13%	15.87%		100.00%
Address Correction			22,758	4,294		27,052
Bulk Permit Fee			12,247	48,932		61,179
Certificate of Mailing			27	5		32
Bulk Parcel Return Service Permits			4	1		5
<u>Total</u>			<u>35,036</u>	<u>53,232</u>		<u>88,268</u>
<u>Standard Mail B</u>		<u>Parcel Post</u>	<u>Bound Printed Matter</u>	<u>Special Rate</u>	<u>Library Rate</u>	<u>Total</u>
Pieces (millions)		378	542	209	29	1,158
Percent of Pieces		32.68%	46.80%	18.02%	2.50%	100.00%
Address Correction		229	516	105	41	891
Certificate of Mailing		60	86	33	5	183
Std. B Special Presort Permits		—	—	109	—	109
Special Handling		174	0	42	14	230
Parcel Airlift		77	—	—	—	77
Dest. Entry Std. B Permits		67	—	—	—	67
Merch. Return Permit Fee		32	46	18	2	97
<u>Total</u>		<u>639</u>	<u>647</u>	<u>306</u>	<u>62</u>	<u>1,654</u>
<u>International</u>						<u>Total</u>
Certificate of Mailing						11
Special Handling						0
Other						0
<u>Total</u>						<u>11</u>
<b>TOTAL FEES</b>						<b>275,011</b>



**Summary of Estimated Test Year After Rates Finances  
Revenue and Volume Variable Cost  
(Dollars in Thousands)**

<u>Description</u>	<u>Volume Variable Cost (1)</u>	<u>Revenue (2)</u>	<u>Revenue as Percent of Cost (Col.2/Col. 1) (3)</u>	<u>Revenue Minus Vol. Var. Cost (Col. 2 - Col. 1) (4)</u>
First-Class Mail				
Single-Piece Letters and Sealed Parcels	13,437,357	23,004,794	171.2%	9,567,437
Presort and Automation Letters	5,019,464	13,226,407	263.5%	8,206,943
Total Letters	18,456,821	36,231,201	196.3%	17,774,380
Single-Piece Cards	539,919	603,902	111.9%	63,983
Presort and Automation Cards	168,958	448,787	265.6%	279,829
Total Cards	708,877	1,052,689	148.5%	343,812
Total First-Class Mail	19,165,698	37,283,889	194.5%	18,118,191
Priority Mail	3,064,062	5,542,259	180.9%	2,478,197
Express Mail	480,984	1,068,567	222.2%	587,583
Mailgrams	1,000	1,136	113.6%	136
Periodicals				
Within County	81,397	81,847	100.6%	450
Outside County	2,384,191	2,416,926	101.4%	32,735
Total Periodicals	2,465,588	2,498,774	101.3%	33,186
Standard Mail (A)				
Regular	6,823,933	9,070,437	132.9%	2,246,504
Enhanced Carrier Route	2,471,864	5,162,024	208.8%	2,690,160
Total Commercial	9,295,797	14,232,461	153.1%	4,936,664
Nonprofit	1,320,611	1,543,087	116.8%	222,476
Enhanced Carrier Route	208,577	264,218	126.7%	55,641
Total Nonprofit	1,529,188	1,807,305	118.2%	278,117
Total Standard Mail (A)	10,824,985	16,039,766	148.2%	5,214,781
Standard Mail (B)				
Parcel Post	1,052,158	1,200,362	114.1%	148,204
Bound Printed Matter	479,204	563,443	117.6%	84,239
Special Rate	301,195	338,764	112.5%	37,569
Library Rate	47,444	49,672	104.7%	2,228
Total Standard Mail (B)	1,880,001	2,152,241	114.5%	272,240
Free-for-the-Blind	40,348	0	0.0%	(40,348)
Total Domestic Mail	37,922,666	64,586,631	170.3%	26,663,965
International Mail	1,429,916	1,747,558	122.2%	317,642
Total All Mail	39,352,582	66,334,189	168.6%	26,981,607
Special Services				
Registry	85,204	94,993	111.5%	9,789
Certified Mail	461,746	577,361	125.0%	115,615
Insurance	76,638	106,070	138.4%	29,432
COD	14,992	19,968	133.2%	4,976
Money Orders *	153,995	305,488	198.4%	151,493
Stamped Cards	3,444	8,317	241.5%	4,873
Stamped Envelopes	12,544	16,041	127.9%	3,497
Box/Caller Service	589,226	814,024	138.2%	224,798
Other	141,324	417,049		275,725
Total Special Services	1,539,113	2,359,312	153.3%	820,199
Total Mail & Services	40,891,695	68,693,501	168.0%	27,801,806
Other Costs	27,978,701			
Other Income		383,847		
Prior Years Loss Recovery	268,257			
Continuing Appropriations		67,093		
Investment Income *		(27,621)		
Grand Total	69,138,653	69,116,820	100.0%	(21,833)

\* Money order revenues include interest of 54,821

Source: Volume Variable Costs from USPS-T-14, WP J, Table E. Revenues from USPS-T-33, USPS-T-34, USPS-T-35, USPS-T-36, USPS-T-37, USPS-T-38 and USPS-T-39.

**Summary Distribution of Domestic Mail Fees to Subclass**  
**Test Year After Rates**  
**(Thousands of Dollars)**

<u>First Class</u>	<u>Letters and Sealed Parcels</u>		<u>Cards</u>			<u>Total</u>
	<u>Single Piece</u>	<u>Worksharing</u>	<u>Stamped</u>	<u>Single Piece</u>	<u>Private</u> <u>Worksharing</u>	
Pieces (millions)	52,878	46,980	416	2,355	2,670	105,298
Percent of Pieces	50.22%	44.62%	0.39%	2.24%	2.54%	100.00%
Address Correction	18,683	16,599	147	832	943	37,205
Business Reply	142,245	---	---	6,335	---	148,580
Certificate of Mailing	6,144	215	48	274	12	6,693
Presort Permit Fee	---	5,670	---	---	322	5,992
Merch. Return Permit Fee	0	36	0	0	0	36
Total	167,072	22,520	195	7,441	1,278	198,505
<u>Priority Mail</u>						<u>Total</u>
Address Correction						85
Business Reply						529
Certificate of Mailing						159
Merch. Return Permit Fee						22
Total						795
<u>Periodicals</u>			<u>Within</u> <u>County</u>	<u>Outside</u> <u>County</u>		<u>Total</u>
Pieces (millions)			862	9,459		10,321
Percent of Pieces			8.35%	91.65%		100.00%
Address Correction			1,750	19,200		20,950
Application Fees			59	651		711
Total			1,809	19,852		21,661
<u>Standard Mail A</u>			<u>Regular</u>	<u>Nonprofit</u>		<u>Total</u>
Pieces (millions)			73,827	14,277		88,104
Percent of Pieces			83.79%	16.21%		100.00%
Address Correction			22,037	4,262		26,299
Bulk Permit Fee			14,790	60,569		75,359
Certificate of Mailing			28	5		33
Bulk Parcel Return Service Permits			21	4		25
Total			36,876	64,840		101,716
<u>Standard Mail B</u>		<u>Parcel</u> <u>Post</u>	<u>Bound</u> <u>Printed</u> <u>Matter</u>	<u>Special</u> <u>Rate</u>	<u>Library</u> <u>Rate</u>	<u>Total</u>
Pieces (millions)		374	525	206	28	1,133
Percent of Pieces		33.02%	46.31%	18.16%	2.51%	100.00%
Address Correction		228	500	104	40	872
Certificate of Mailing		67	95	37	5	204
Std. B Special Presort Permits		---	---	134	---	134
Special Handling		172	0	41	14	227
Parcel Airlift		0	---	---	---	0
Dest. Entry Std. B Permits		34	48	---	---	83
Merch. Return Permit Fee		39	55	22	3	119
Total		541	698	338	62	1,639
<u>International</u>						<u>Total</u>
Certificate of Mailing						13
Special Handling						0
Other						0
Total						13
<b>TOTAL FEES</b>						<b>324,329</b>

**Summary of Revenues  
Fiscal Year 2000  
(Thousands)**

<u>Description</u>	<u>Mail Volume</u>	<u>Revenues</u>
First-Class Mail		
Single-Piece Letters and Sealed Parcels	53,685,016	22,465,146
Presort and Automation Letters	45,096,057	12,277,225
Total Letters	98,781,073	34,742,372
Single-Piece Cards	2,855,226	593,456
Presort and Automation Cards	2,600,104	417,473
Total Cards	5,455,330	1,010,928
Total First-Class Mail	104,236,403	35,753,300
Priority Mail	1,229,818	4,740,686
Express Mail	69,876	994,373
Mailgrams	3,858	1,312
Periodicals		
Within County	892,821	78,090
Outside County		
Nonprofit	1,988,739	325,163
Classroom	58,182	13,456
Regular-Rate	7,457,452	1,812,341
Total Periodicals	10,397,195	2,229,049
Standard Mail (A)		
Regular	41,673,597	8,464,503
Enhanced Carrier Route	32,691,235	4,896,106
Total Commercial	74,364,831	13,360,609
Nonprofit	11,255,435	1,438,278
Enhanced Carrier Route	2,957,311	236,456
Total Nonprofit	14,212,747	1,674,734
Total Standard Mail (A)	88,577,578	15,035,343
Standard Mail (B)		
Parcel Post	347,342	1,123,975
Bound Printed Matter	509,795	463,307
Special Rate	206,675	324,472
Library Rate	28,546	47,742
Total Standard Mail (B)	1,092,357	1,959,497
USPS Penalty Mail	359,429	0
Free-for-the-Blind	54,952	0
Total Domestic Mail	206,021,466	60,713,559
International Mail	1,048,763	1,690,211
Total All Mail	207,070,229	62,403,770
Special Services		
Registry	12,675	89,267
Certified Mail	281,365	393,911
Insurance	46,688	91,694
COD	3,805	19,549
Money Orders *	229,668	265,081
Stamped Cards	431,990	4,320
Stamped Envelopes	400,000	12,515
Box/Caller Service	17,853	728,460
Other		342,332
Total Special Services		1,947,129
Total Mail & Services	207,070,229	64,350,899
Other Income		376,023
Continuing Appropriations		64,436
Investment Income *		(24,112)
Grand Total	207,070,229	64,767,245

\* Money order revenues include interest of 51,398

**Summary Distribution of Domestic Mail Fees to Subclass  
Fiscal Year 2000  
(Thousands of Dollars)**

	Letters and Sealed Parcels		Cards			Total
	Single Piece	Worksharing	Stamped	Single Piece	Worksharing	
<u>First Class</u>						
Pieces (millions)	53,685	45,096	432	2,423	2,600	104,236
Percent of Pieces	51.50%	43.26%	0.41%	2.32%	2.49%	100.00%
Address Correction	16,073	13,501	129	725	778	31,208
Business Reply	116,653	---	---	5,265	---	121,918
Certificate of Mailing	5,589	199	45	252	11	6,097
Presort Permit Fee	---	4,486	---	---	259	4,745
Merch. Return Permit Fee	0	28	0	0	0	28
Total	138,314	18,215	174	6,243	1,049	163,996
<u>Priority Mail</u>						<u>Total</u>
Address Correction						70
Business Reply						426
Certificate of Mailing						125
Merch. Return Permit Fee						17
Total						638
<u>Periodicals</u>	<u>Within County</u>	<u>Nonprofit</u>	<u>Classroom</u>		<u>Regular Rate</u>	<u>Total</u>
Pieces (millions)	893	1,989	58		7,457	10,397
Percent of Pieces	8.59%	19.13%	0.56%		71.73%	100.00%
Address Correction	1,675	3,731	109		13,990	19,505
Application Fees	62	138	4		517	721
Total	1,737	3,869	113		14,507	20,226
<u>Standard Mail A</u>			<u>Regular</u>	<u>Nonprofit</u>		<u>Total</u>
Pieces (millions)			74,365	14,213		88,578
Percent of Pieces			83.95%	16.05%		100.00%
Address Correction			22,148	4,233		26,381
Bulk Permit Fee			11,919	48,235		60,154
Certificate of Mailing			26	5		31
Bulk Parcel Return Service Permits			4	1		5
Total			34,097	52,474		86,571
<u>Standard Mail B</u>	<u>Parcel Post</u>	<u>Bound Printed Matter</u>	<u>Special Rate</u>	<u>Library Rate</u>		<u>Total</u>
Pieces (millions)	347	510	207	29		1,092
Percent of Pieces	31.80%	46.67%	18.92%	2.61%		100.00%
Address Correction	211	485	104	40		840
Certificate of Mailing	55	80	33	4		172
Std. B Special Presort Permits	---	---	108	---		108
Special Handling	160	0	41	14		215
Parcel Airlift	73	---	---	---		73
Dest. Entry Std. B Permits	31	---	---	---		31
Merch. Return Permit Fee	29	43	17	2		92
Total	558	609	303	61		1,530
<u>International</u>						<u>Total</u>
Certificate of Mailing						11
Special Handling						0
Other						0
Total						11
<b>TOTAL FEES</b>						<b>272,972</b>

**Summary of Changes in Rates  
Proposed Over Current Rates**

<b><u>Classification</u></b>	<b><u>Percent Change</u></b>
First-Class Mail	
Letters	3.5%
Cards	5.0%
Priority Mail	15.0%
Express Mail	3.8%
Periodicals	
Within County	8.5%
Outside County	12.7%
Standard Mail (A)	
Regular	9.4%
Enhanced Carrier Route	4.9%
Nonprofit	5.6%
Nonprofit Enhanced Carrier Route	14.8%
Standard Mail (B)	
Parcel Post	1.3%
Bound Printed Matter	18.1%
Special	4.9%
Library	4.5%

**Summary of Estimated Test Year After Rates  
Revenue and Incremental Cost  
(Dollars in Thousands)**

<u>Description</u>	<u>Incremental Cost (1)</u>	<u>Revenue (2)</u>	<u>Revenue Minus Incremental Cost (Col. 2 - Col. 1) (3)</u>
First-Class Mail			
Single-Piece Letters and Sealed Parcels	14,179,317	23,004,794	8,825,477
Presort and Automation Letters	5,188,914	13,226,407	8,037,493
Total Letters	19,865,338	36,231,201	16,365,863
Single-Piece Cards	552,719	603,902	51,183
Presort and Automation Cards	170,800	448,787	277,986
Total Cards	724,264	1,052,689	328,425
Total First-Class Mail	20,805,817	37,283,889	16,478,073
Priority Mail	3,406,568	5,542,259	2,135,691
Express Mail	723,261	1,068,567	345,306
Mailgrams	1,026	1,136	109
Periodicals			
Within County	82,098	81,847	(251)
Outside County	2,414,816	2,416,926	2,110
Total Periodicals	2,497,245	2,498,774	1,529
Standard Mail (A)			
Regular	6,937,525	9,070,437	2,132,912
Enhanced Carrier Route	2,617,126	5,162,024	2,544,898
Total Commercial	9,767,090	14,232,461	4,465,371
Nonprofit	1,334,443	1,543,087	208,644
Enhanced Carrier Route	208,768	264,218	55,450
Total Nonprofit	1,544,778	1,807,305	262,526
Total Standard Mail (A)	11,431,673	16,039,766	4,608,092
Standard Mail (B)			
Parcel Post	1,061,265	1,200,362	139,097
Bound Printed Matter	482,390	563,443	81,053
Special Rate	302,020	338,764	36,744
Library Rate	47,504	49,672	2,168
Total Standard Mail (B)	1,911,763	2,152,241	240,477
International Mail	1,531,016	1,747,558	216,542
Special Services			
Registry	85,307	94,993	9,686
Certified Mail	548,669	577,361	28,692
Insurance	76,780	106,070	29,291
COD	15,016	19,968	4,952
Money Orders *	214,999	305,488	90,489
Stamped Cards	3,444	8,317	4,873
Stamped Envelopes	12,551	16,041	3,490
Box/Caller Service	589,421	814,024	224,602

Source: Incremental Costs from USPS-T-23. Revenues from USPS-T-33, USPS-T-34, USPS-T-35, USPS-T-36, USPS-T-37, USPS-T-38 and USPS-T-39.